Little differences tell a big story


A&P Canada


Super Fresh

The Great Atlantic & Pacific Tea Company, Inc. Annual Report 1987


Food Emporium


Kohl's


Waldbaum's


A&P

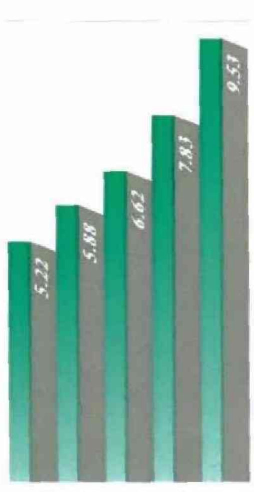
Little differences tell a big story at A&P. Our company's strength and continued growth stem from recognizing and adapting to our customers and their differences. In geography. In lifestyle and culture. In age and gender.

We've responded in kind to these differences—tailoring the atmosphere and product mix of each of our stores to meet the unique requirements and perceptions of its local customer base. The result is a regional philosophy for a multi-regional food chain. A big story indeed.

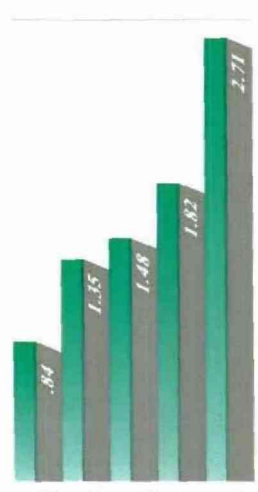
Comparative Highlights

(Dollars in thousands, except per share figures)	**Fiscal 1987 (52 weeks)**	Fiscal 1986 (53 weeks)	Fiscal 1985 (52 weeks)
Sales	**$9,531,780**	$7,834,859	$6,615,422
Income before extraordinary credits	**103,443**	69,010	56,090
Net income	**103,443**	95,010	88,290
Income per share before extraordinary credits	**2.71**	1.82	1.48
Cash dividends per share	**.475**	.40	.10
Expenditures for property	**230,385**	163,239	108,579
Working capital	**62,710**	93,418	174,091
Current ratio	**1.07**	1.12	1.30
Shareholders' equity	**851,310**	755,718	668,688
Book value per share	**22.32**	19.85	17.63
Number of stores at year end	**1,183**	1,200	1,045

Sales
billions of dollars



Earnings per Share Before Extraordinary Credits
in dollars



Book Value per Share
in dollars

To Our Shareholders:

Amid continued upheaval and consolidation throughout the retail food industry, A&P maintained its course of growth and profitability in 1987. The company again achieved new highs in both sales and earnings as we completed our sixth consecutive year of improved results.

Financial Performance

For the full 52-week fiscal year ended February 27, 1988, income before extraordinary credits rose 50% to $103.4 million or $2.71 per share from $69.0 million or $1.82 per share in the 53-week year ended February 28, 1987, while sales were $9.5 billion, up 22% from $7.8 billion in the prior year. Net income for fiscal 1987 increased 9% to $103.4 million or $2.71 per share, compared to $95.0 million or $2.50 per share in fiscal 1986. Tax carryforwards of $26.0 million or $.68 per share, were included in the 1986 fiscal year, while net income in 1987 came entirely from operating results.

Operations Review

Fiscal 1987 was our first full year with the Waldbaum's/Food Mart and Shopwell/Food Emporium acquisitions. Our objective for Waldbaum's was to improve its efficiency and financial controls without altering the merchandising flair that has made it such a standout with New York area consumers. The year-end result of that strategy was a substantial contribution to corporate sales and earnings.

The stores acquired in 1986 from Shopwell, Inc. were reorganized within A&P's Metro New York Group, with the upscale Food Emporium chain becoming a separate division. We successfully opened two new Food Emporiums, in Manhattan and suburban New Canaan, Connecticut. Several Shopwell locations have been converted to A&P or Waldbaum's, and conversions of the remaining Shopwell stores are planned in 1988. Substantial new store development and remodeling will follow in 1988 for our A&P, Food Emporium and Waldbaum's operations, which combine to make us the market leader in the New York metropolitan area.

The Waldbaum's Food Mart stores in Connecticut and Massachusetts, combined with the A&P Northeast Group, will substantially improve our market presence in those areas.

We continue to expand implementation of the Super Fresh type labor agreement. All of our stores in Philadelphia's Delaware Valley area, through Maryland and Virginia, are now operating under the Super Fresh name and Quality of Work Life incentive system. Recently, employees in our Raleigh, North Carolina division also ratified a Super Fresh contract, enabling us to convert stores there to the Super Fresh identity.

With more than 200 of our stores operating under the Super Fresh name and labor agreement, we have reorganized our Philadelphia, Mid-Atlantic and Virginia operations into one unit. This provides an efficient base for the overall Super Fresh entity.

In addition to those eastern seaboard regions, the Quality of Work Life program is also in place in our Kohl's subsidiary in Wisconsin and our A&P stores in Baton Rouge. Last year, we reached agreement with the union in Canada enabling us to open our first Super Fresh store in Kitchener, Ontario.

During fiscal 1987, we completed the total integration of Dominion into our Canadian company. A&P Canada's profits were slightly reduced as the result of an extremely aggressive promotional program. This was needed to counter the unusually intense competitive development in Ontario, and also to support the expanded A&P store network, enlarged by the conversion of 47 Dominion stores over the past two years, and the launching in 1987 of 10 new stores and 10 remodeled units.

This ambitious program has resulted in 161 A&P stores in Ontario with a solid value image, and a 36-store Dominion group which emulates the trading style of Food Emporium in the U.S., with its upscale, cosmopolitan appeal. The Dominion Stores group has now registered its third year of increasing profits, and the combined Canadian entity maintains its market leadership in Ontario.

New store openings and remodelings fortified our already strong store network in Michigan. In greater Detroit, where

the economy has improved and residential development is again on the upswing, we are positioning our operations to reap full advantage as the situation progresses.

In Wisconsin, our Kohl's subsidiary again featured the best product variety, service and perishables merchandise in its trading areas, but faced stiff competition from a number of low-priced warehouse-style operators. In the latter part of the year, Kohl's revised its merchandising with a strong promotional program. Based on its early success, that program will continue throughout fiscal 1988.

Our primary goal in the company's southern regions, hard-hit by the depressed oil and farm economies, was to maintain our presence in those markets in anticipation of eventual recovery. Again in 1988, our capital investment in those areas will be minimal, as we continue to monitor competitive activity and economic developments through the year.

Development Program

Approximately $200 million will be spent throughout the organization on new store development, enlargements and remodelings in 1988, continuing our ongoing capital investment plan. We will build 36 new stores and remodel or expand over 100 existing locations.

This program ensures the upgrading of our conventional supermarkets and continued development of our more specialized formats, including the upscale Futurestores, the gourmet-oriented Food Emporiums and the more promotional Sav-A-Centers. It works hand-in-hand with our regionalized structure, giving us the versatility to trade in various areas with the appropriate store format, product variety, service level and pricing philosophy.

This year we are introducing "Master Choice," a new, premium private label brand, featuring imported products for exclusive sale in all of our stores. Improved private label variety, along with our ongoing national brand emphasis and commitment to outstanding perishables, will in time complete a powerful combination of first-rate stores featuring first-rate product variety.

A&P enters fiscal 1988 with a strong balance sheet, sales leadership in our two most important markets, and a net profit rate that has improved beyond the industry standard by virtue of more modern store facilities, a better product mix, and ongoing attention to the control of labor and overhead costs.

Those strengths coupled with our carefully planned capital development will continue to position us favorably in our key markets. And as always, we stand prepared to take advantage of opportunities to improve our marketshare and sales base as they may arise.

In closing, I extend my thanks to our employees for their dedicated efforts, and our shareholders for their support, as we work to achieve continued growth and improvement in fiscal 1988.

James Wood

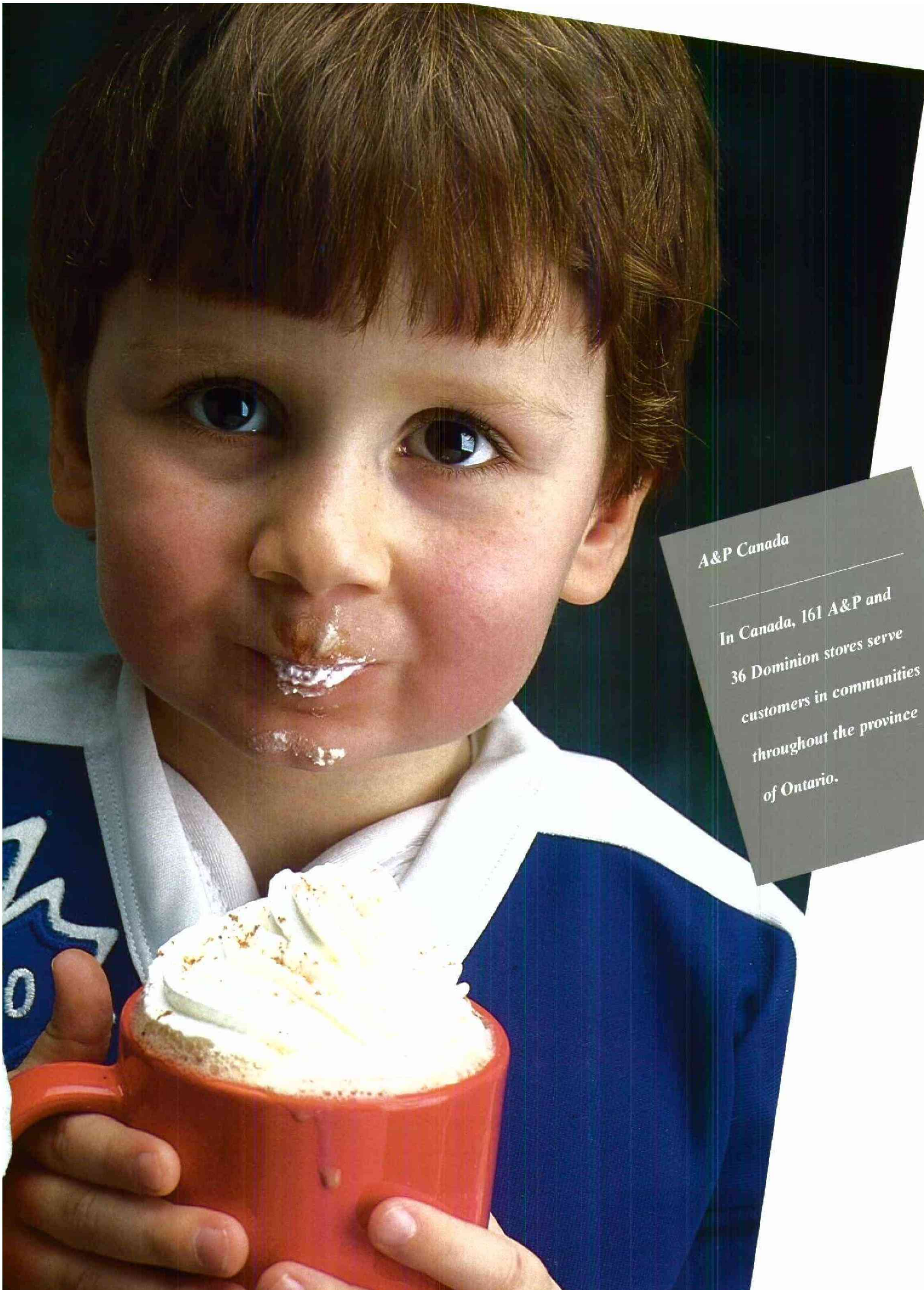
James Wood
Chairman and Chief Executive Officer
April 26, 1988

For The Great Atlantic & Pacific Tea Company, 1987 was a year of dramatic and selective store development. The company continued on a path of rapid growth by concentrating efforts on the most promising areas of profit opportunity in each of our six major regions of operation—the Northeast, the New York metro area, the Mid-Atlantic states, the South, the Midwest, and Ontario, Canada.

Northeastern Canada is an area of operations in which A&P now has significant coverage. Our presence there comprises two successful store chains: A&P Canada and Dominion.

Throughout the province of Ontario, A&P Canada represents one of the company's most highly regarded and successful operations. Its reputation for service, quality and competitive pricing continues to attract a solid base of value-conscious consumers.

The Dominion stores, acquired in 1985, enjoy a well-earned image for innovative merchandising and upscale service among a discriminating customer segment in the metropolitan Toronto area. A&P's Canadian company is well positioned for continued growth.



A&P Canada

In Canada, 161 A&P and 36 Dominion stores serve customers in communities throughout the province of Ontario.

The Mid-Atlantic region is the domain of Super Fresh, an immensely popular chain offering a promotional, service-oriented customer appeal.

The core of the Super Fresh concept is an involvement by store personnel that fosters efficiency and customer sensitivity. It is a concept with strong future growth potential.

Super Fresh is home of the acclaimed Quality of Work Life program, an innovative labor agreement in which employees participate in store-level decisions and receive bonuses based on sales and productivity performance. The noticeable result of this program is an entrepreneurial environment that translates to high morale, outstanding customer service, and an atmosphere of neighborliness.

The growth of Super Fresh stores continues to be impressive in the Mid-Atlantic states. New stores have opened in downtown Philadelphia, as well as in southern New Jersey, Pennsylvania and Delaware suburban areas. And the chain is now beginning to extend further southward, into Maryland, Virginia and North Carolina.

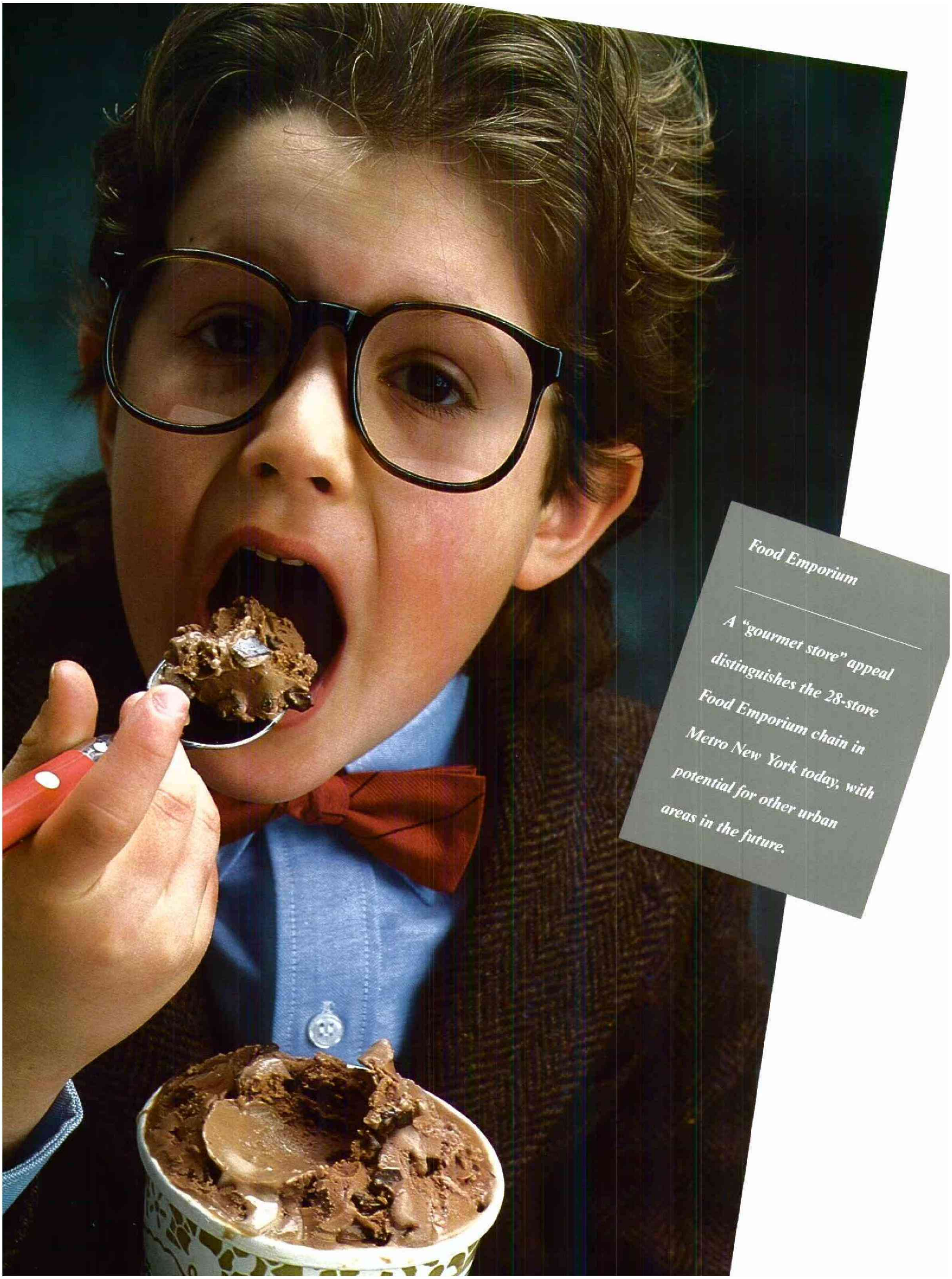

Super Fresh
Outstanding customer service is the fruit of a "Quality of Work Life" program in 202 Super Fresh Food Markets in the Mid-Atlantic states.

The company's strongest presence is in the New York metropolitan area, where 180 A&P stores were joined in 1986 by two acquisitions: the Shopwell/Food Emporium and Waldbaum's chains.

Food Emporium, our Manhattan-based gourmet format, has captured an upscale customer segment by offering an exotic product mix and pleasant shopping atmosphere in tight urban environs. Following the lead of the highly successful 68th & Broadway opening, Food Emporiums will soon appear at 90th & Broadway and other New York City locations. In the suburbs, New Canaan, Connecticut, was the site for a new store opening in 1987.

The acquisition of the Food Emporium operation also included 20 Shopwell stores, which will be integrated into our New York operations through conversion to A&P, Food Emporium or Waldbaum's stores.

We plan to intensify our ongoing search for new store locations in the fiercely competitive metro New York area. With Waldbaum's, A&P, and Food Emporium, we have a variety of approaches to appeal to the diversified customer base of the country's largest market.



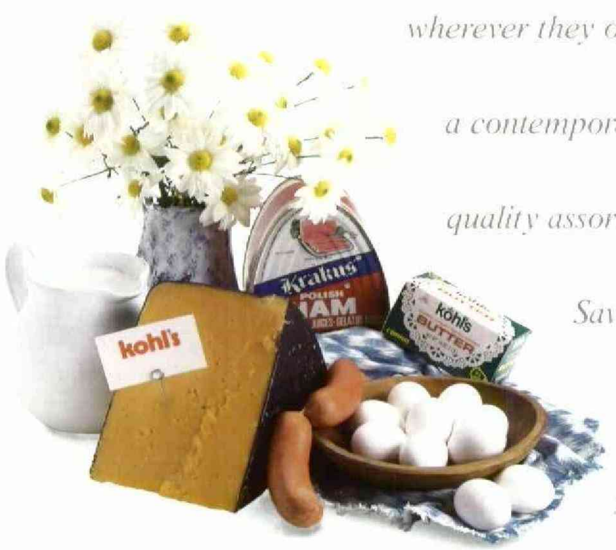
Food Emporium

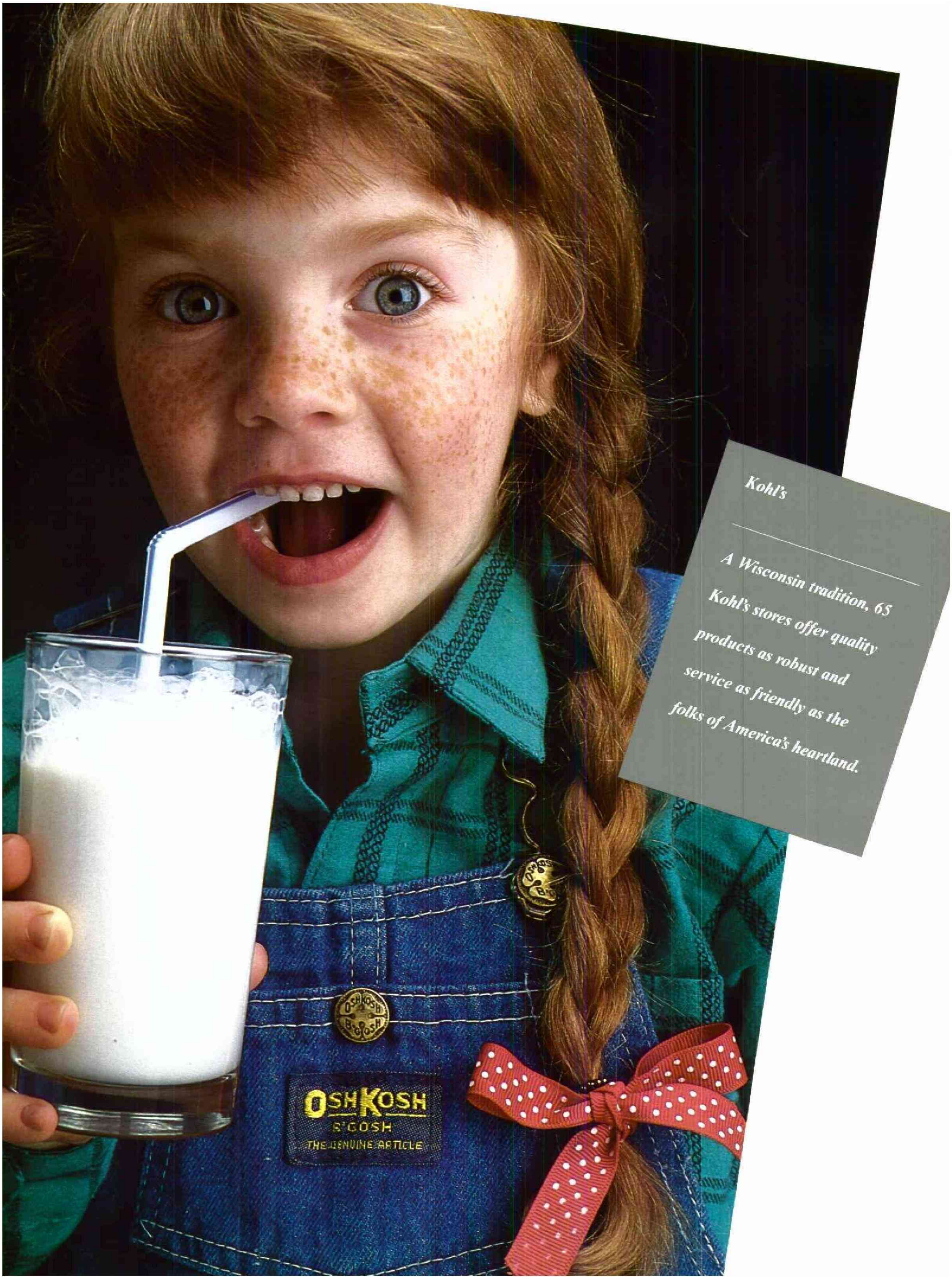
A "gourmet store" appeal distinguishes the 28-store Food Emporium chain in Metro New York today, with potential for other urban areas in the future.

Kohl's and quality have always been synonymous. In Wisconsin, where food warehouse stores are prevalent, that relationship takes on particular significance. Quality perishables and outstanding bakery and deli departments are the primary reason for Kohl's success...and its turnaround in market share.

The jewel in the Kohl's crown is a new Sav-A-Center in West Allis, Wisconsin, that has established itself as the leading producer in the chain. The Sav-A-Center format allows Kohl's to build on its perishables reputation while challenging warehouse store competitors on price.

In Michigan, 64 A&P stores show signs of broadened acceptance. Case in point: In the Detroit suburbs, two new A&P Futurestores and a new A&P Sav-A-Center are showing such impressive results that additional stores are planned for the area. These two superstore prototypes are successful wherever they operate. The Futurestore features a contemporary, black-and-white decor and a quality assortment of 20,000 products. The Sav-A-Center's strong promotional approach touts quality, variety and service at warehouse store prices.




Kohl's
A Wisconsin tradition, 65 Kohl's stores offer quality products as robust and service as friendly as the folks of America's heartland.
OSHKOSH B'GOSH THE GENUINE ARTICLE

Waldbaum's is truly a New York tradition, renowned for its appeal to the cultural mix that is unique to the Big Apple. The 1986 acquisition of the chain effectively combined the individual strengths of two companies: Waldbaum's merchandising focus and A&P's business expertise in controls and systems.

The result: synergistic growth. In early 1988, a 79,000-square-foot store in Middle Village, Queens, became a new Waldbaum's, with the distinction of being the largest supermarket in New York City. And in the South Bronx, a 250,000-customer base awaits the opening of its own, 50,000-square-foot Super Waldbaum's. More than five times the size of any other food market within miles, this store will be the first major supermarket to capitalize on the impending rebirth of the area.

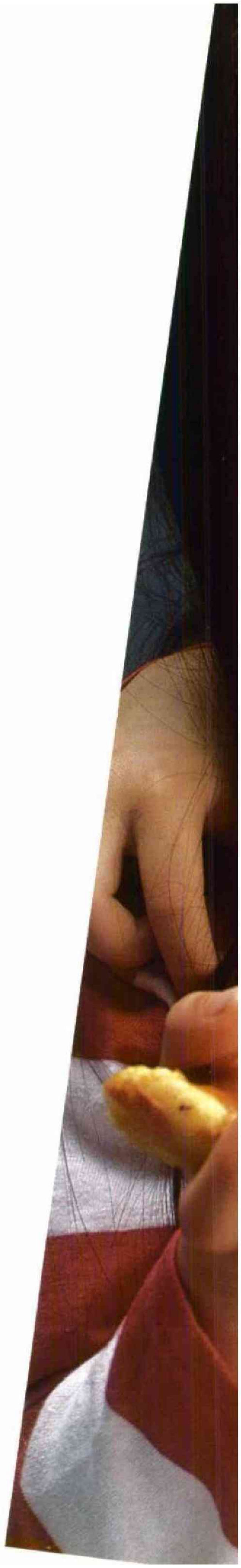
A second part of the Waldbaum's acquisition is its subsidiary Food Mart operation, with broad appeal in the New England states. With a strong emphasis on one-stop shopping, this 36-store chain combines with the A&P stores in the area to create a stronger overall presence for the company in the Northeast region of the country.

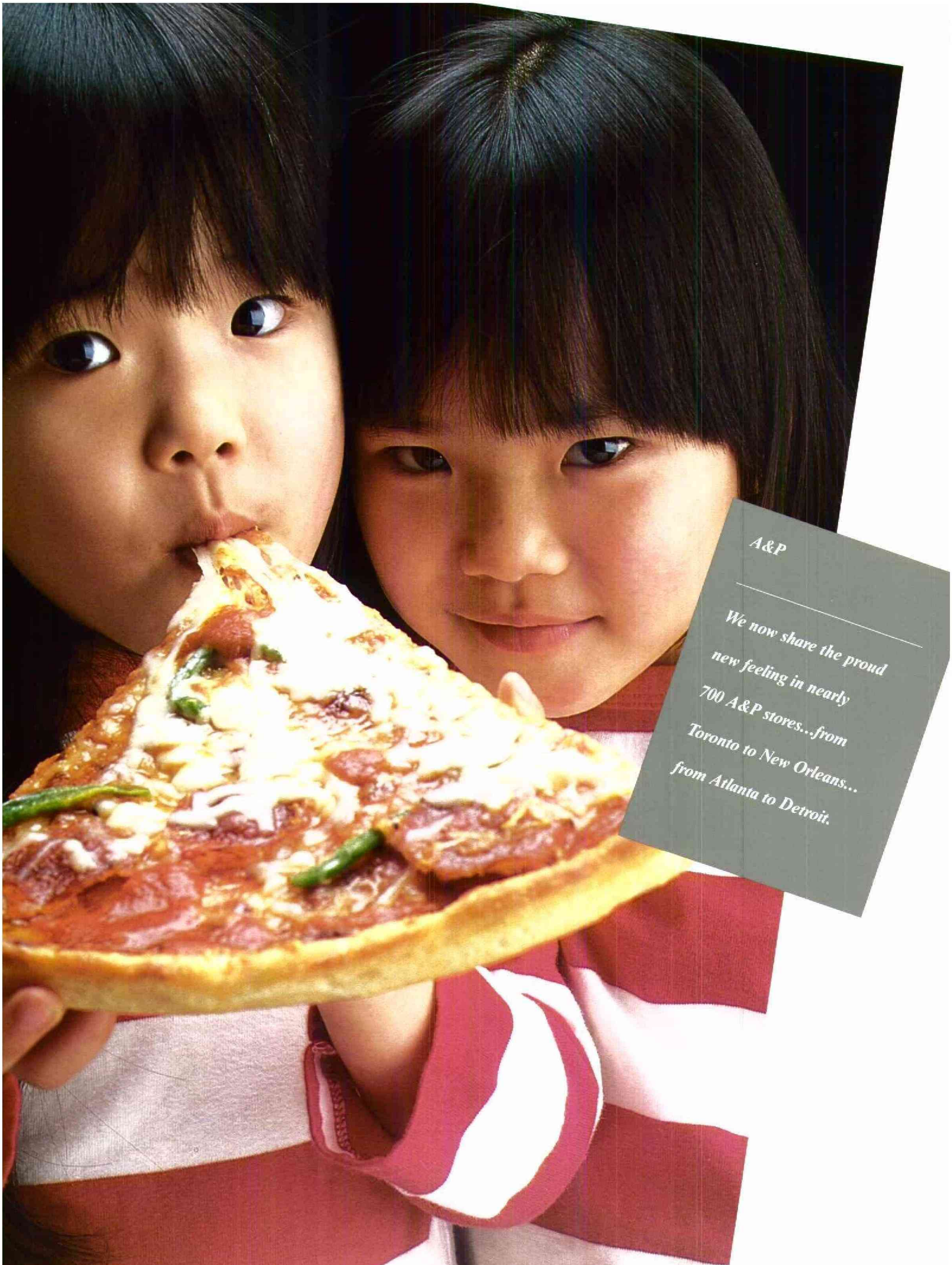

Waldbaum's
Diverse cultural heritage is a way of life to the people of the Northeast...and to the 139 Waldbaum's stores that cater to them.
I NY

Inside all of our stores — Dominion, Super Fresh, Food Emporium, Kohl's, Waldbaum's, and A&P — constantly changing customer tastes require a constantly changing product mix. A&P continues to react quickly to consumer trends.

One such trend: health-conscious people in a hurry. Their demands are the reason for our emphasis on seafood (with sales doubling each year) and service meat departments, as well as self-service areas for salads, soups, and 190 varieties of cheese. To further meet the needs of these customers, we have doubled the space dedicated to prepared hot foods. And, with one-stop shopping a priority for most customers, we offer traffic-generating products and services to such convenience shoppers as working women. These include an on-premises bakery...a florist...postage stamps...even traveler's checks.

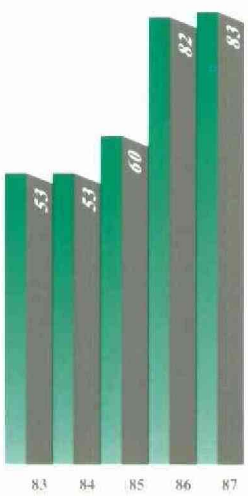
The little differences in A&P's operating companies drive our marketing efforts. While capitalizing on the substantial impact of the corporate "We built a proud new feeling" theme, 1988 advertising and promotion will be regional, geared to the local customer base of each store chain.




A&P
We now share the proud
new feeling in nearly
700 A&P stores...from
Toronto to New Orleans...
from Atlanta to Detroit.

Financial Information

Number of Employees
thousands



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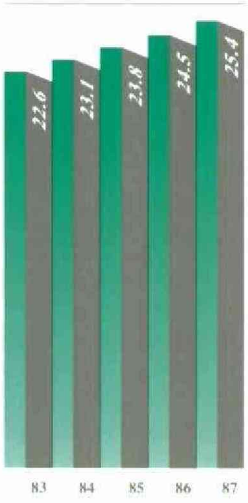
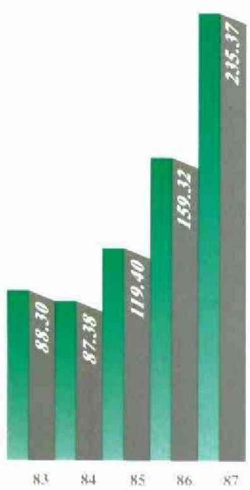
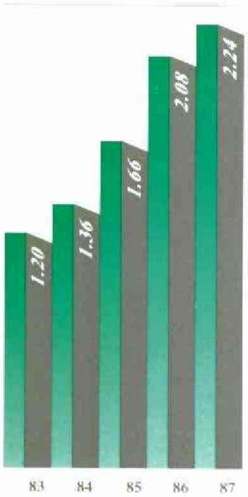
Gross Margin
percentage of sales



Income from Operations
millions of dollars



Total Assets
billions of dollars



Five-Year Summary of Selected Financial Data

(Dollars in thousands, except per share figures)	Fiscal 1987 (52 weeks)	Fiscal 1986 (53 weeks)	Fiscal 1985 (52 weeks)	Fiscal 1984 (52 weeks)	Fiscal 1983 (52 weeks)
Operating results					
Sales	$9,531,780	$7,834,859	$6,615,422	$5,878,286	$5,222,013
Income before extraordinary credits	103,443	69,010	56,090	50,779	31,401
Net income	103,443	95,010	88,290	215,779	47,551
Per share data					
Income before extraordinary credits	2.71	1.82	1.48	1.35	.84
Net income	2.71	2.50	2.33	5.74	1.27
Cash dividends	.475	.40	.10	—	—
Financial position					
Current assets	945,663	898,854	756,594	642,822	654,266
Current liabilities	882,953	805,436	582,503	472,530	487,885
Working capital	62,710	93,418	174,091	170,292	166,381
Current ratio	1.07	1.12	1.30	1.36	1.34
Total assets	2,243,174	2,080,226	1,663,760	1,363,101	1,199,928
Long-term debt	168,255	196,209	151,306	94,635	106,152
Capital lease obligations	225,695	223,933	196,360	148,366	153,031
Equity					
Shareholders' equity	851,310	755,718	668,688	582,953	375,789
Book value per share	22.32	19.85	17.63	15.48	10.02
Weighted average shares outstanding	38,106,000	38,017,000	37,839,000	37,599,000	37,456,000
Number of shareholders	19,228	20,717	22,433	24,746	27,289
Other					
Number of employees	83,000	81,500	60,000	53,000	53,000
Number of stores at year end	1,183	1,200	1,045	1,001	1,022
Total store area (square feet)	33,111,000	32,609,000	27,648,000	25,313,000	23,276,000

Operating Results

Fiscal 1987 Compared with 1986

Sales for fiscal 1987 were $9.5 billion as compared with $7.8 billion in fiscal 1986, a 21.7% increase. Average weekly sales per store for the period increased from $135,121 to $155,040 for an increase of 14.7%. The increase in sales reflects the acquisitions of Waldbaum, Inc. and Shopwell, Inc., the opening of new stores and the remodeling of existing stores.

Gross margins as a percent of sales increased .9% over the prior year from 24.5% to 25.4% resulting primarily from cost reductions due to a more aggressive purchasing policy and a better product mix.

Store operating, general and administrative expense as a percent of sales increased to 22.9% for the current year from 22.5% for the prior year primarily due to the increased costs and expenses associated with store labor, employee benefits and occupancy costs.

The increase in interest expense is due to the assumption of borrowings resulting from the acquisitions of Waldbaum, Inc. and Shopwell, Inc. The decrease in interest income is due primarily to the disposition of marketable securities to finance the Company's fiscal 1986 acquisitions.

Although the Company's effective tax rate decreased to 45.0% in fiscal 1987 from 46.8% in fiscal 1986, the provision for income taxes increased as a result of increased profitability.

Fiscal 1986 Compared with 1985

Sales for fiscal 1986 were $7.8 billion as compared with $6.6 billion in fiscal 1985, an 18.4% increase. Average weekly sales per store for the period increased from $118,266 to $135,121 for an increase of 14.3%. The increase in sales reflects the acquisitions of Waldbaum, Inc. and Shopwell, Inc., the construction of new stores, the remodeling of existing stores and 53 week results for fiscal 1986 as compared to 52 week results for fiscal 1985. This increase was partially offset by the closure of 73 stores including the fourth quarter sale of 21 Family Mart combination stores.

Return on Sales before Extraordinary Credits
percentages

Gross margins as a percent of sales increased .7% over the prior year from 23.8% to 24.5% resulting primarily from cost reductions due to a more aggressive purchasing policy.

Store operating, general and administrative expense as a percent of sales increased to 22.5% for the current year from 22.0% for the prior year primarily due to increased costs and expenses associated with store labor and store development programs.

The increase in interest expense is due to the assumption of borrowings resulting from the acquisitions of Waldbaum, Inc. and Shopwell, Inc.

Although the Company's effective tax rate decreased to 46.8% in fiscal 1986 from 48.6% in fiscal 1985, the provision for income taxes increased as a result of increased profitability. This increase was partially offset by an extraordinary credit representing the utilization of the Company's U.S. Federal tax carryforwards.

Fiscal 1985 Compared with 1984

Sales for fiscal 1985 were $6.6 billion as compared with $5.9 billion in fiscal 1984, a 12.5% increase. Average weekly sales per store for the period increased from $112,953 to $118,266 for an increase of 4.7%. The increase in sales reflects the acquisition of Dominion during the first quarter of 1985, the construction of new stores and the remodeling of existing stores.

Gross margins as a percent of sales increased .7% over the prior year from 23.1% to 23.8% resulting primarily from cost reductions due to a more aggressive purchasing policy.

Store operating, general and administrative expense as a percent of sales increased to 22.0% for the current year from 21.6% for the prior year primarily due to increased costs and expenses associated with remodeling and store development programs.

The increase in interest income is attributable to the higher level of interest bearing marketable securities. The increase in interest expense is due to borrowings associated with the acquisition of Dominion and additional capital leases.

The provision for income taxes increased as a result of increased profitability. The effect of the increase was partially offset by extraordinary credits representing the utilization of the Company's U.S. Federal net operating loss and investment tax credit carryforwards.

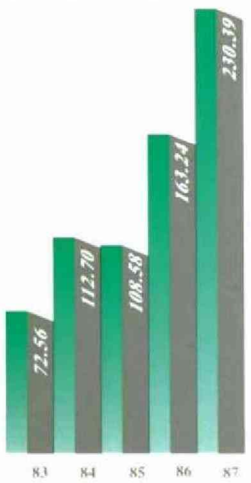
Liquidity and Capital Resources

The Company ended the fiscal year with working capital of $63 million as compared with $93 million and $174 million at February 28, 1987 and February 22, 1986, respectively. The Company had cash and short-term investments aggregating $54 million at the end of fiscal 1987 as compared with $62 million and $69 million at the end of fiscal 1986 and fiscal 1985, respectively. The Company also has in excess of $500 million in various available credit facilities.

During fiscal 1987, the Company financed its capital expenditures, debt repayments and cash dividends through internally generated funds supplemented by external borrowings. The Company's Canadian subsidiary reduced commercial paper borrowings during the fiscal year from $45 million at February 28, 1987 to $17 million at February 27, 1988. The Company's domestic bank borrowings increased during the fiscal year from $7 million at February 28, 1987 to $43 million at February 27, 1988. Average outstanding domestic bank borrowings during fiscal 1987 were $31 million at an average interest rate of 6.9%.

The Company's current cash resources, together with available credit facilities and income from operations, are sufficient for the Company's capital expenditure program, debt retirements and dividend payments in fiscal 1988.

Capital Expenditures
millions of dollars



Statements of Consolidated Operations

(Dollars in thousands, except per share figures)	Fiscal 1987 (52 weeks)	Fiscal 1986 (53 weeks)	Fiscal 1985 (52 weeks)
Sales	$ 9,531,780	$ 7,834,859	$ 6,615,422
Cost of merchandise sold	7,112,915	5,912,746	5,043,440
Gross margin	2,418,865	1,922,113	1,571,982
Store operating, general and administrative expense	(2,183,498)	(1,762,789)	(1,452,578)
Income from operations	235,367	159,324	119,404
Interest expense	(51,921)	(47,822)	(40,454)
Interest income	4,497	17,908	30,140
Income before income taxes and extraordinary credits	187,943	129,410	109,090
Provision for income taxes	(84,500)	(60,400)	(53,000)
Income before extraordinary credits	103,443	69,010	56,090
Extraordinary credit — utilization of tax carryforwards	—	26,000	32,200
Net income	$ 103,443	$ 95,010	$ 88,290
Per common share:			
Income before extraordinary credits	$ 2.71	$ 1.82	$ 1.48
Extraordinary credit — utilization of tax carryforwards	—	.68	.85
Net income	$ 2.71	$ 2.50	$ 2.33

Statements of Consolidated Shareholders' Equity

(Dollars in thousands)	Fiscal 1987 (52 weeks)	Fiscal 1986 (53 weeks)	Fiscal 1985 (52 weeks)
Common stock:			
Balance beginning of year	$ 38,068	$ 37,939	$ 37,668
Exercise of options	75	129	271
	$ 38,143	$ 38,068	$ 37,939
Capital surplus:			
Balance beginning of year	$ 427,432	$ 424,166	$ 422,613
Exercise of options and phantom share agreement	3,129	3,266	1,553
	$ 430,561	$ 427,432	$ 424,166
Cumulative translation adjustment:			
Balance beginning of year	$ (12,329)	$ (16,163)	$ (15,577)
Exchange adjustment	7,047	3,834	(586)
	$ (5,282)	$ (12,329)	$ (16,163)
Retained earnings:			
Balance beginning of year	$ 302,547	$ 222,746	$ 138,249
Net income	103,443	95,010	88,290
Cash dividends	(18,102)	(15,209)	(3,793)
	$ 387,888	$ 302,547	$ 222,746

See Notes to Consolidated Financial Statements on pages 23 through 31.

Consolidated Balance Sheets

(Dollars in thousands)	February 27, 1988	February 28, 1987
Assets		
Current assets:		
Cash and short-term investments	$ 54,444	$ 62,068
Accounts receivable	123,102	93,522
Inventories	735,118	703,519
Properties held for sale	12,942	19,082
Prepaid expenses	20,057	20,663
Total current assets	945,663	898,854
Property:		
Land	71,714	72,734
Buildings	194,700	174,995
Equipment and leasehold improvements	1,105,037	939,814
Total—at cost	1,371,451	1,187,543
Less accumulated depreciation and amortization	(276,706)	(214,145)
	1,094,745	973,398
Property leased under capital leases	187,639	188,431
Property—net	1,282,384	1,161,829
Other assets	15,127	19,543
	$2,243,174	$2,080,226
Liabilities and Shareholders' Equity		
Current liabilities:		
Current portion of long-term debt	$ 57,586	$ 31,159
Current portion of obligations under capital leases	20,276	19,291
Accounts payable	479,075	444,533
Accrued salaries, wages and benefits	132,603	109,095
Accrued taxes	60,660	59,466
Other accruals	132,753	141,892
Total current liabilities	882,953	805,436
Long-term debt	168,255	196,209
Obligations under capital leases	225,695	223,933
Deferred income taxes	33,541	13,455
Other non-current liabilities	81,420	85,475
Shareholders' equity:		
Preferred stock—no par value: authorized—3,000,000 shares; issued—none		
Common stock—$1 par value: authorized—80,000,000 shares; issued and outstanding—38,142,643 and 38,067,993 shares, respectively	38,143	38,068
Capital surplus	430,561	427,432
Cumulative translation adjustment	(5,282)	(12,329)
Retained earnings	387,888	302,547
Total shareholders' equity	851,310	755,718
	$2,243,174	$2,080,226

See Notes to Consolidated Financial Statements on pages 23 through 31.

Statements of Changes in Consolidated Financial Position

(Dollars in thousands)	Fiscal 1987 (52 weeks)	Fiscal 1986 (53 weeks)	Fiscal 1985 (52 weeks)
Source of funds:			
From operations:			
Income before extraordinary credits	$ 103,443	$ 69,010	$ 56,090
Expenses not requiring working capital:			
Depreciation and amortization	143,530	103,471	80,341
Charge in lieu of U.S. Federal income tax	—	26,000	32,200
Deferred income taxes	16,500	(4,200)	3,000
Total working capital provided from operations	263,473	194,281	171,631
Decrease (increase) in marketable securities and other investments	—	254,350	(9,451)
Disposition of property	12,924	49,075	12,152
Proceeds from borrowings	42,851	10,905	127,582
Decrease (increase) in cumulative translation adjustment	7,047	3,834	(586)
Obligations under capital leases	24,190	2,000	43,330
Total	350,485	514,445	344,658
Disposition of funds:			
Acquisitions less working capital acquired: 1986, $9,278 and 1985, $30,314	—	337,915	85,434
Expenditures for property	230,385	163,239	108,579
Decrease in obligations under capital leases	22,428	42,282	12,066
Decrease in long-term debt	70,805	42,268	73,415
Cash dividends	18,102	15,209	3,793
Property leased under capital leases	24,190	2,000	43,330
Other, net	15,283	(7,795)	14,242
Total	381,193	595,118	340,859
Increase (decrease) in working capital	(30,708)	(80,673)	3,799
Working capital—beginning of year	93,418	174,091	170,292
Working capital—end of year	$ 62,710	$ 93,418	$174,091
Increase (decrease) in components of working capital:			
Cash and short-term investments	$ (7,624)	$ (6,672)	$ (13,851)
Accounts receivable	29,580	17,907	19,585
Inventories	31,599	126,802	92,754
Properties held for sale	(6,140)	4,944	(8,117)
Prepaid expenses	(606)	(721)	13,401
	46,809	142,260	113,772
Current portion of long-term debt	26,427	1,083	18,204
Current portion of obligations under capital leases	985	6,971	(574)
Accounts payable	34,542	112,488	69,630
Accrued expenses	24,702	38,529	13,675
Other accruals	(9,139)	63,862	9,038
	77,517	222,933	109,973
Increase (decrease) in working capital	$ (30,708)	$ (80,673)	$ 3,799

See Notes to Consolidated Financial Statements on pages 23 through 31.

Summary of Significant Accounting Policies

Fiscal Year The Company's fiscal year ends on the last Saturday in February. Fiscal 1987 ended February 27, 1988, fiscal 1986 ended February 28, 1987 and fiscal 1985 ended February 22, 1986. Fiscal 1987 and 1985 were comprised of 52 weeks, while fiscal 1986 was comprised of 53 weeks.

Common Stock As of February 27, 1988 the principal shareholder of the Company, Tengelmann Warenhandelsgesellschaft ("Tengelmann"), owned 52.5% of the Company's common stock.

Principles of Consolidation The consolidated financial statements include the accounts of the Company and all majority-owned subsidiaries. Minority interest of $16 million and $15 million at February 27, 1988 and February 28, 1987, respectively is included in the balance sheet caption "Other non-current liabilities".

Inventories Store inventories are valued principally at the lower of cost or market with cost determined under the retail method. All other inventories (primarily in warehouses and food processing facilities) are valued at the lower of cost or market with cost determined on a first-in, first-out basis.

Properties Depreciation and amortization are provided on the straight-line basis over the estimated useful lives of the assets. Buildings are depreciated based on lives varying from twenty to fifty years and equipment based on lives varying from three to ten years. Equipment and real property leased under capital leases are amortized over the lives of the respective leases. Properties designated for sale have been classified as current assets.

Pre-opening Costs Costs incurred in the opening of new stores are expensed in the year the cost is incurred.

Income Taxes The Company provides deferred income taxes in recognition of timing differences between income for financial reporting and income tax purposes. Investment tax credits are amortized over the estimated useful lives of the related assets. In December of 1987, the Financial Accounting Standards Board issued Statement No. 96, "Accounting for Income Taxes" which establishes new accounting and reporting standards for the effects of income taxes. Additionally, the statement establishes new standards for the accounting for the tax effects of acquisitions accounted for by the purchase method. The Company is not required to adopt the statement until 1989 and may elect to restate prior year results in compliance with the statement. While the full impact of adopting the statement on the Company's financial statements is not determinable at this time, the Company's deferred tax liabilities will be increased for differences in the tax and financial statement basis of assets and liabilities arising from certain acquisitions.

Retirement Plans In fiscal 1987, the Company adopted Statement of Financial Accounting Standards No. 87 "Employers' Accounting for Pensions". The effect of this change was not material to the accompanying Consolidated Financial Statements.

Compensated Absences The Company accrues for vested and non-vested vacation pay. Liabilities for compensated absences of $61 million and $55 million at February 27, 1988 and February 28, 1987, respectively are included in the balance sheet caption "Accrued salaries, wages and benefits".

Earnings Per Share Net income per share is based on the weighted average number of common shares outstanding during the year. Stock options outstanding had no material effect on the computation of net income per share.

Acquisitions

During the fourth quarter of 1986 the Company, as the general partner of a partnership, acquired an approximate 95% interest in Waldbaum, Inc. ("Waldbaum") for $277 million in cash. The shares of Waldbaum were purchased pursuant to a Stock Purchase Agreement on November 26, 1986 and a tender offer dated November 28, 1986 at $50 per share. Waldbaum operated 139 retail supermarkets in the New York, Connecticut and Massachusetts areas. In July, 1986 the Company acquired all of the outstanding shares of Shopwell, Inc. ("Shopwell") for approximately $70 million in cash. Shopwell, located in the Metropolitan New York area, operated 53 retail supermarkets.

The acquisitions of Waldbaum and Shopwell have been accounted for as purchases and, accordingly, the Company has allocated the purchase price to the assets acquired and liabilities assumed as follows: property, including property under capital leases — $511 million, long-term debt including capital lease obligations — $144 million, net other non-current liabilities including $15 million minority interest — $29 million.

The results of operations of Waldbaum and Shopwell have been included in the consolidated results of the Company from the respective dates of acquisition. Pro forma sales, had the acquisitions been completed on February 24, 1985, would have been $9,470 million and $8,840 million for fiscal years 1986 and 1985, respectively. Pro forma net income and net income per share have been omitted, as the results of Waldbaum and Shopwell prior to the dates of acquisition would not materially affect the results as reported in the accompanying Statements of Consolidated Operations. Pro forma information is not necessarily indicative of the actual results that would have occurred, or the future operations of the combined companies.

On April 29, 1985 the Company purchased from Dominion Stores Limited, 92 stores, 2 warehouses and an office complex ("Dominion") located in the Province of Ontario for approximately $116 million. The acquisition has been accounted for as a purchase and, accordingly, the results of operations of Dominion are included in the Statements of Consolidated Operations from the date of acquisition.

Operations in Geographic Areas

The Company has been engaged in the retail food business since 1859 and currently does business under the names A&P, Super Fresh, Family Mart, Kohl's, Waldbaum's, Shopwell, Food Emporium, Food Mart, Sav-A-Center, Sun, Futurestore, Dominion and Compass Foods. Sales and revenues in the table below reflect sales to unaffiliated customers in the United States and Canada.

(Dollars in thousands)	Fiscal 1987 (52 weeks)	Fiscal 1986 (53 weeks)	Fiscal 1985 (52 weeks)
Sales:			
United States	$7,859,119	$6,178,519	$5,163,857
Canada	1,672,661	1,656,340	1,451,565
Total	$9,531,780	$7,834,859	$6,615,422
Income before income taxes and extraordinary credits:			
United States	$ 141,933	$ 80,559	$ 74,178
Canada	46,010	48,851	34,912
Total	$ 187,943	$ 129,410	$ 109,090
Assets:			
United States	$1,824,802	$1,700,010	$1,306,014
Canada	418,372	380,216	357,746
Total	$2,243,174	$2,080,226	$1,663,760

Indebtedness

Debt consists of:

(Dollars in thousands)	February 27, 1988	February 28, 1987
9½% Senior Notes, due in annual installments of $10,000 through October 1, 1992	$ 50,000	$ 60,000
Mortgages and Other Notes, interest rates ranging from ⅞% to 14⅛% due 1988 through 2011	116,119	116,028
Bank Borrowings at 6.6% and 6.1%, respectively	42,500	6,700
Commercial Paper	17,222	44,640
	225,841	227,368
Less current portion	(57,586)	(31,159)
Long-term debt	$168,255	$196,209

The net book value of real estate pledged as collateral for all mortgage loans amounted to approximately $155 million as of February 27, 1988. Bank borrowings of $26.6 million as of February 27, 1988 are classified as non-current since it is the Company's intent to refinance on a long-term basis.

The Company has a $100 million revolving credit/term loan agreement with banks enabling the Company to borrow funds on a revolving basis until September 1, 1989. Thereafter, the Company may convert any outstanding borrowings into a 4-year term loan, repayable in equal semi-annual installments. In addition, the Company maintains lines of credit with banks of approximately $100 million.

The Company's Canadian subsidiary has a $75 million commercial paper program and a bank credit agreement whereby the Company, at its option, may refinance its commercial paper borrowings with loans having maturities of up to 5 years. At February 27, 1988 $17.2 million of commercial paper borrowings are classified as current.

Pursuant to a prospectus dated June 5, 1987, the Company may offer from time to time up to $300 million of debt securities at terms determined by market conditions at the time of sale. In addition, during fiscal 1987 the Company established a $200 million U.S. commercial paper program. The Company did not borrow under these facilities during fiscal 1987. The Company is required to maintain available bank credit facilities sufficient to refinance borrowings under the commercial paper program.

The Company's loan agreements contain certain financial covenants including limitations on the payment of cash dividends, the maintenance of minimum levels of working capital and limitations on the incurrence of additional indebtedness and lease commitments. At February 27, 1988 approximately $238 million of retained earnings were free of the dividend restrictions.

Maturities for the next five fiscal years are: 1988—$58 million; 1989—$21 million; 1990—$25 million; 1991—$22 million; 1992—$22 million.

Lease Obligations

The Company operates primarily in leased facilities. Lease terms generally range up to twenty-five years for store leases and thirty years for other leased facilities, with options to renew for additional periods. The majority of the leases contain escalation clauses relating to real estate tax increases, and certain of the store leases provide for increases in rentals when sales exceed specified levels. In addition, the Company leases some store equipment and trucks.

The consolidated balance sheets include the following:

(Dollars in thousands)	February 27, 1988	February 28, 1987
Real property leased under capital leases	$270,067	$250,040
Equipment leased under capital leases	39,628	41,315
	309,695	291,355
Accumulated amortization	(122,056)	(102,924)
	$187,639	$188,431

Rent expense for operating leases consists of:

(Dollars in thousands)	Fiscal 1987 (52 weeks)	Fiscal 1986 (53 weeks)	Fiscal 1985 (52 weeks)
Minimum rentals	$ 95,203	$ 81,035	$ 67,836
Contingent rentals	9,949	8,148	6,611
	$105,152	$ 89,183	$ 74,447

Minimum annual rentals for leases in effect at February 27, 1988 are shown in the table below. All amounts are exclusive of lease obligations and sublease rentals applicable to facilities for which reserves have previously been established.

(Dollars in thousands)	Capital Leases		
Fiscal	Equipment	Real Property	Operating Leases
1988	$ 10,011	$ 37,701	$ 92,015
1989	6,306	37,361	86,186
1990	4,856	36,534	78,746
1991	3,100	35,537	72,663
1992	841	34,381	65,292
1993 and thereafter	227	285,737	575,621
	25,341	467,251	$970,523
Less executory costs	—	(6,800)	
Net minimum rentals	25,341	460,451	
Less interest portion	(3,759)	(236,062)	
Present value of net minimum rentals	$ 21,582	$224,389	

Stock Options

The Company has a 1975 and a 1984 Stock Option Plan for its officers and key employees. As of February 23, 1985 all available options under the 1975 Stock Option Plan had been granted, of which 457,000 shares remain unexercised. The 1984 Stock Option Plan provides for the granting of 1,500,000 shares, either as options or Stock Appreciation Rights ("SAR's") at exercise prices equal to the fair value of the Company's common stock on the date the option is granted. SAR's allow the optionee, in lieu of purchasing stock, to receive cash in an amount equal to the excess of the fair market value of common stock on the date of

Stock Options
Continued

exercise over the option price. Compensation expense relating to SAR's of $7 million, $4 million and $3 million was recorded during the fiscal years 1987, 1986 and 1985, respectively. A total of 30,000 SAR's were granted in fiscal 1987.

A summary of option transactions is as follows:

	Shares	Price Range Per Share
Outstanding February 22, 1986	836,664	$ 5.50 — $16.37
Granted	351,500	21.50 — 24.75
Cancelled or expired	(17,500)	5.50 — 12.88
Options exercised	(128,881)	5.50 — 15.12
SAR's exercised	(27,454)	5.50 — 14.75
Outstanding February 28, 1987	1,014,329	5.50 — 24.75
Granted	30,000	32.38 — 39.00
Cancelled or expired	(40,750)	21.50 — 34.00
Options exercised	(74,650)	5.50 — 15.75
SAR's exercised	(90,332)	5.50 — 21.50
Outstanding February 27, 1988	838,597	$ 5.50 — $39.00
Exercisable at:		
February 28, 1987	579,071	$ 5.50 — $16.37
February 27, 1988	543,080	$ 5.50 — $24.75

Litigation

On March 18, 1983, a judgment was entered by the Federal Court in Newark, New Jersey, and affirmed on December 29, 1983 by the Third Circuit Court of Appeals, approving the settlement of an action brought by a former executive on behalf of himself and a class of participants in the Company's Employees' Retirement Plan. The action sought to prevent the termination of the plan and the distribution of the surplus assets to the Company. Pursuant to the settlement, the benefits to participants were increased at a cost of $50 million. On March 7, 1985, a purported class action, entitled *Ruthie Epting, et al. v. The Great Atlantic & Pacific Tea Company, Inc., et al.*, was brought in the same Federal Court against the Company, members of its Board of Directors and of its Retirement Board, and the Commissioner of Internal Revenue. The plaintiffs are persons who claim to be former employees who were discharged prior to obtaining vested pension rights under the plan. The plaintiffs seek a declaratory judgment, claiming that they were discharged under circumstances constituting a partial termination of the plan, thus entitling them to benefits under the plan as well as other relief. On January 6, 1986, the Federal Court conditionally dismissed this purported class action, ruling that the plaintiffs were within the settlement class. The court requested the Internal Revenue Service to review the issue of whether any partial terminations had occurred and to present its findings to the court for further determination if appropriate. On March 3, 1986, plaintiffs filed an appeal from the January 6, 1986 order. The appeal was dismissed for want of appellate jurisdiction by the Court of Appeals on November 28, 1986. The appellate court's decision indicated that the *Epting* complaint remained alive pending resolution of the partial termination inquiry currently before the Internal Revenue Service.

The Company is also involved in various other claims, administrative agency proceedings and other lawsuits arising out of the normal conduct of its business. Although the ultimate outcome of the above legal proceedings cannot be predicted, the management of the Company believes that resulting liability, if any, will not have a material effect upon the Company's financial position.

Income Taxes

The provision for income taxes consists of the following:

(Dollars in thousands)	Fiscal 1987 (52 weeks)	Fiscal 1986 (53 weeks)	Fiscal 1985 (52 weeks)
Current:			
Federal	$38,500	$38,500	$37,400
Canadian	18,500	23,300	10,500
State and local	11,000	2,800	2,100
	68,000	64,600	50,000
Deferred:			
Federal	11,900	(8,500)	(3,900)
Canadian	4,600	4,300	6,900
	$84,500	$60,400	$53,000

The Federal income tax provisions include a charge in lieu of Federal income tax of $26 million and $32 million for fiscal years 1986 and 1985, respectively. These amounts have been offset by tax carryforwards of equal amount, which are included as an extraordinary credit in the Statements of Consolidated Operations. The 1987 and 1986 provisions include $3 million and $4 million, respectively of amortization of investment tax credits. The Company has unamortized investment tax credits of approximately $10 million for financial statement purposes.

The deferred Federal income tax provision results from accelerated tax depreciation offset by expenses not yet deductible for tax purposes, principally related to insurance, closed store expenses, leasing and employee benefits. The deferred Canadian provision results from the excess of depreciation for tax purposes over amounts recorded for financial statement purposes, and from a provision for tax on the undistributed earnings of Canadian subsidiaries. Deferred taxes have not been provided on approximately $15 million of undistributed earnings of the Canadian subsidiaries which are considered to be permanently invested.

A reconciliation of the Federal statutory income tax rate to the Company's effective tax rate is summarized as follows:

	Fiscal 1987	Fiscal 1986	Fiscal 1985
Federal statutory income tax rate	38.0%	46.0%	46.0%
State income taxes less Federal tax benefit	3.6	1.2	1.0
Difference between statutory rate and Canadian effective rate	3.0	4.0	1.5
Depreciation attributable to excess cost over tax basis of certain assets	1.8	0.7	—
Amortization of ITC	(1.6)	(3.1)	—
Capital gains	—	(2.6)	—
Other, net	0.2	0.6	0.1
Effective income tax rate	45.0%	46.8%	48.6%

The Company's Chief Executive Officer has received payments from Tengelmann in accordance with a phantom stock agreement. Under the terms of this agreement, the Company will recognize these payments as deductions for Federal income tax purposes, but based upon the facts and circumstances of the agreement, such payments do not represent compensation expense for financial statement purposes. Accordingly, the income tax benefit resulting from the fiscal 1987 and 1986 payments has been recorded as a credit of $2.5 and $2.4 million, respectively, to the capital surplus of the Company.

Retirement Plans and Benefits

In February 1988 the Company adopted, retroactive to March 1, 1987, Statement of Financial Accounting Standards No. 87 "Employers' Accounting for Pensions" (SFAS 87) for its defined benefit pension plans. Pension costs and the related disclosures for fiscal 1987 were determined under the provisions of SFAS 87. Pension costs and the related disclosures for prior years were determined under accounting principles previously in effect.

The Company has a defined contribution Retirement Savings Plan under which an eligible participant may contribute up to 16% of eligible salary, subject to certain statutory limitations. The Company contributes 4% of such salary, plus 50% of the participant's initial 6% contribution. Participants become fully vested in the Company's contribution after 5 years of service. The Company's contributions charged to operations were $7 million in fiscal 1987, 1986 and 1985.

In addition to the Company's Retirement Savings Plan, the Company also maintains certain other defined contribution plans, primarily for its Waldbaum and Shopwell subsidiaries. Participants contribute to these plans based on a percentage of eligible salary, and the Company contributes to such plans based on specified percentages of the participants' eligible contributions. The Company's contributions charged to operations in fiscal 1987 for these plans were $1 million. The Company's contributions for fiscal 1986 were not significant.

The Company also provides retirement benefits to certain non-union and some union employees under several defined benefit plans. Fiscal 1987 net pension cost for these plans consists of the following components:

(Dollars in thousands)	Fiscal 1987
Service cost	$ 5,061
Interest on projected benefit obligation	10,402
Actual return on plan assets	(9,023)
Net amortization and deferral	(2,832)
Net pension cost	$ 3,608

The Company's defined benefit pension plans are accounted for on a calendar year basis. Reconciliations of the funded status of these plans as of December 31, 1987 are as follows:

(Dollars in thousands)	Assets Exceed Accumulated Benefits	Accumulated Benefits Exceed Assets
Actuarial present value of:		
Vested benefit obligation	$100,427	$ 14,892
Accumulated benefit obligation	$107,058	$ 16,214
Projected benefit obligation	$117,003	$ 19,048
Plan marketable securities at fair value	140,541	2,294
Excess (deficiency) of plan assets versus projected benefit obligation	23,538	(16,754)
Unrecognized net (gain) loss	(5,682)	(1,313)
Prior service cost not yet recognized in net pension cost	5,427	—
Unrecognized net transitional obligation (asset)	(21,597)	5,572
Pension asset (liability)	$ 1,686	$(12,495)

Retirement Plans and Benefits Continued

The benefit obligations were determined individually for each of the applicable plans using assumed discount rates ranging from 8% to 9% and assumed long-term rates of compensation increases ranging from 5% to 6%. The assumed rates of return on plan assets ranged from 7½% to 9%.

Net pension cost for fiscal 1986 and 1985 was $3 million and $4 million, respectively. The weighted average assumed rate of return used in determining the January 1, 1987 actuarial present value of accumulated plan benefits was 8.2%.

The Company also participates in various multi-employer union pension plans which are administered jointly by management and union representatives and which sponsor most full-time and certain part-time union employees who are not covered by the Company's other pension plans. The cost of these plans approximated $31, $24 and $22 million in fiscal 1987, 1986 and 1985, respectively. The Company could, under certain circumstances, be liable for unfunded vested benefits or other costs of jointly administered union/management plans.

In addition to providing pension benefits, the Company provides contributory health and life benefits to approximately 1,300 employees who have elected early retirement. Benefits are paid until such time as the employee reaches age 65. The costs of retiree benefits, which are not significant, are recognized as expense as claims are reported.

Summary of Quarterly Results (unaudited)

The following table summarizes the Company's results of operations by quarter for fiscal 1987 and 1986. The first quarter of each fiscal year contains sixteen weeks and the second and third quarters of each fiscal year contain twelve weeks. The fourth quarter of fiscal 1987 and 1986 contains twelve weeks and thirteen weeks, respectively.

(Dollars in thousands, except per share figures)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total Year
1987					
Sales	$2,901,380	$2,201,100	$2,196,157	$2,233,143	$9,531,780
Gross margin	730,154	549,749	566,454	572,508	2,418,865
Income from operations	69,402	55,176	53,897	56,892	235,367
Income before extraordinary credits	30,368	24,342	23,461	25,272	103,443
Net income	30,368	24,342	23,461	25,272	103,443
Per share data:					
Income:					
Before extraordinary credits	.80	.64	.61	.66	2.71
Net income	.80	.64	.61	.66	2.71
Cash dividends	.10	.125	.125	.125	.475
Market price:					
High	37⅞	42⅝	46¼	39⅜	
Low	27⅜	37¾	29¼	32½	
Number of stores at end of period:	1,194	1,195	1,197	1,183	
1986					
Sales	$2,101,909	$1,680,933	$1,708,314	$2,343,703	$7,834,859
Gross margin	512,734	409,800	422,687	576,892	1,922,113
Income from operations	41,794	32,976	34,444	50,110	159,324
Income before extraordinary credit	18,986	14,780	14,545	20,699	69,010
Net income	28,686	23,380	22,245	20,699	95,010
Per share data:					
Income:					
Before extraordinary credit	.50	.39	.38	.55	1.82
Net income	.76	.61	.58	.55	2.50
Cash dividends	.10	.10	.10	.10	.40
Market price:					
High	25⅞	27¼	25	29⅞	
Low	21¼	22¼	20	22½	
Number of stores at end of period:	1,044	1,095	1,087	1,200	

Management's Report on Financial Statements

The management of The Great Atlantic & Pacific Tea Company, Inc. has prepared the consolidated financial statements and related financial data contained in this Annual Report. The financial statements were prepared in accordance with generally accepted accounting principles appropriate to our business and, by necessity and circumstance, include some amounts which were determined using management's best judgments and estimates with appropriate consideration to materiality. Management is responsible for the integrity and objectivity of the financial statements and other financial data included in this report. To meet this responsibility, management maintains a system of internal accounting controls to provide reasonable assurance that assets are safeguarded and that accounting records are reliable. Management supports a program of internal audits and internal accounting control reviews to provide assurance that the system is operating effectively.

The Board of Directors pursues its responsibility for reported financial information through its Audit Review Committee. The Audit Review Committee meets periodically and, when appropriate, separately with management, internal auditors and the independent certified public accountants, Deloitte Haskins & Sells, to review each of their respective activities.

James Wood

James Wood
Chairman of the Board of Directors and Chief Executive Officer

Fred Corrado

Fred Corrado
Executive Vice President and Chief Financial Officer

Opinion of Independent Certified Public Accountants

To the Shareholders and Board of Directors of The Great Atlantic & Pacific Tea Company, Inc.:

We have examined the consolidated balance sheets of The Great Atlantic & Pacific Tea Company, Inc. and its subsidiary companies as of February 27, 1988 and February 28, 1987 and the related statements of consolidated operations, shareholders' equity and changes in financial position for each of the three fiscal years in the period ended February 27, 1988. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying financial statements present fairly the financial position of the companies at February 27, 1988 and February 28, 1987 and the results of their operations and the changes in their financial position for each of the three fiscal years in the period ended February 27, 1988, in conformity with generally accepted accounting principles applied on a consistent basis.

Deloitte Haskins & Sells

Hackensack, New Jersey
April 20, 1988

Corporate Officers

James Wood
Chairman of the Board
and Chief Executive Officer

Louis Sherwood
President

James W. Rowe
Vice Chairman of the Board
and Assistant to the C.E.O.

Eckart C. Siess
Vice Chairman of the Board,
Strategic Planning

Joseph H. McCarthy
Executive Vice President,
Chief Operating Officer

Fred Corrado
Executive Vice President,
Chief Financial Officer

Michael J. Larkin
Senior Vice President,
East Coast Operations

James L. Madden
Senior Vice President,
Canadian, Midwest and
Southern Operations

Peter J. O'Gorman
Senior Vice President,
Development and Marketing

Ivan K. Szathmary
Senior Vice President,
Chief Services Officer

Robert G. Ulrich
Senior Vice President
and General Counsel

Peter R. Brooker
Vice President, Planning
and Corporate Secretary

James B. Burmeister
Vice President,
Field Administration

O.C. Cook
Vice President,
Meat and Service Departments

Timothy J. Courtney
Vice President, Taxation

Julian J. DiFiore
President, Super Fresh Operations

Nina A. Dinell
Treasurer

R. Paul Gallant
President, Compass Foods

George Graham
President, Metro
New York Group

Kenneth Green
Vice President,
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Engineering and Construction

Peter R. Lavoy
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Corporate Procurement

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Vice President,
Real Estate

H. Nelson Lewis
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Human Resources

Mary Ellen Offer
Assistant Corporate Secretary

Joseph P. Quirk
Vice President,
Labor Relations

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Vice President, Communications
and Corporate Affairs

John D. Ryder
Vice President, Marketing

Richard J. Scola
Vice President
and Assistant General Counsel

Caryle Sherwin
Vice President,
Corporate Merchandising

J. Paul Stillwell
President,
Supermarket Service Corp.

William J. Tennant
Vice President
and Controller

Burton J. Weinbaum
Vice President,
Northeast Group

A&P Canada

Edward Mossop
Chairman

John P. Dunne
President

Kohl's Food Stores

Larry Zettle
President

Waldbaum, Inc. subsidiary

Aaron Malinsky
President

Kenneth Abrahams
President, Food Mart Division

Directors

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Chairman of the Board
and Chief Executive Officer

Rosemarie Baumeister (b)
Executive Vice President,
Tengelmann
Warenhandelsgesellschaft,
West Germany

Harold J. Berry (b)(c)(d)
Vice Chairman of the Board
Emeritus, Merrill Lynch,
Pierce, Fenner & Smith, Inc.

Walter D. Dance (a)(c)(d)(e)
Director Emeritus and Consultant,
General Electric Company

Christopher F. Edley (a)(d)(e)
President, United Negro
College Fund, Inc.

Helga Haub (c)(d)

Barbara Barnes Hauptfuhrer (a)(c)(e)
Director of various corporations

Paul C. Nagel, Jr. (a)(d)
Director of various corporations

James W. Rowe (d)(e)
Vice Chairman of the Board
and Assistant to the C.E.O.

Louis Sherwood (c)(d)
President

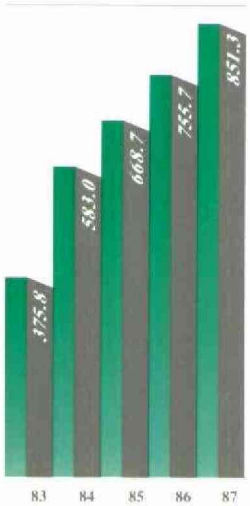
Eckart C. Siess (c)(e)
Vice Chairman of the Board,
Strategic Planning

Fritz Teelen
President, Plus subsidiary
Tengelmann
Warenhandelsgesellschaft,
West Germany

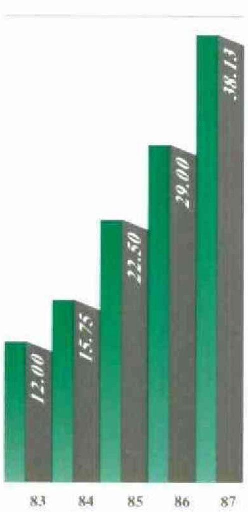
Henry W. Van Baalen (b)
Business Consultant

(a) Member of Audit
Review Committee
Paul C. Nagel, Jr., Chairman
(b) Member of Compensation
Policy Comittee
Harold J. Berry, Chairman
(c) Member of Executive Committee
James Wood, Chairman
(d) Member of Finance Committee
Paul C. Nagel, Jr., Chairman
(e) Member of Retirement
Benefits Committee
Barbara B. Hauptfuhrer,
Chairman

Shareholders' Equity
millions of dollars



Market Price per Share at Year End
in dollars



Shareholder Information

EXECUTIVE OFFICES
Box 418
2 Paragon Drive
Montvale, NJ 07645
Telephone (201) 573-9700

TRANSFER AGENT AND REGISTRAR
American Stock Transfer Co.
New York, New York 10005

ANNUAL MEETING
The Annual Meeting of Shareholders will be held at 10:00 a.m. on Tuesday, July 12, 1988 at the Four Seasons Hotel, 200 Boylston Street, Boston, Massachusetts. Shareholders are cordially invited to attend.

FORM 10-K
Copies of Form 10-K filed with the Securities and Exchange Commission will be provided to shareholders upon written request to the Secretary at the Executive Offices in Montvale, New Jersey.

INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS
Deloitte Haskins & Sells
411 Hackensack Avenue
Hackensack, New Jersey 07601

SHAREHOLDER INQUIRIES, PUBLICATIONS AND ADDRESS CHANGES
Shareholders, security analysts, members of the media and others interested in further information about the Company are invited to contact the Corporate Affairs Department at the Executive Offices in Montvale, New Jersey.

Correspondence concerning address changes should be directed to American Stock Transfer Company, New York, New York 10005.

COMMON STOCK
Common stock of the Company is listed and traded on the New York Exchange under the ticker symbol "GAP" and has unlisted trading privileges on the Boston, Midwest, Philadelphia, Cincinnati, and Pacific Stock Exchanges.

2 Paragon Drive
Montvale, NJ 07645
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